

## Community resources

[Follow us on Twitter](#) [Check our Reddit](#) [Twitter this](#) [Digg this page](#) [Contact us on IRC](#)

*courage is contagious*

## Viewing cable 09MOSCOW2528, GAZPROM'S REVERSAL OF FORTUNE, PART ONE

If you are new to these pages, please read an introduction on the [structure of a cable](#) as well as how to [discuss them](#) with others. See also the [FAQs](#)

### Understanding cables

Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

### Discussing cables

If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#09MOSCOW2528**.

Reference ID	Created	Released	Classification	Origin
<a href="#">09MOSCOW2528</a>	<a href="#">2009-10-06 11:02</a>	<a href="#">2011-08-30 01:44</a>	<a href="#">CONFIDENTIAL</a>	<a href="#">Embassy Moscow</a>

Appears in these articles:

<http://www.spiegel.de/>

VZCZCXYZ0000  
PP RUEHWEB

DE RUEHMO #2528/01 2791102  
ZNY CCCCC ZZH  
P 061102Z OCT 09  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC PRIORITY 4993  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEHDX/MOSCOW POLITICAL COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY  
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 002528

SIPDIS

DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND WRIGHT, S/EEE  
MORNINGSTAR  
DOE FOR HEGBURG, EKIMOFF  
DOC FOR JBROUGHER  
NSC FOR MMCFAUL

E.O. 12958: DECL: 10/05/2019  
TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)

SUBJECT: GAZPROM'S REVERSAL OF FORTUNE, PART ONE

REF: A. MOSCOW 971

1B. MOSCOW 403

1C. MOSCOW 367

Classified By: Econ MC Matthias J. Mitman for Reasons 1.4 (b/d)

11. (U) This is the first of a two-part report on the new economic realities facing Gazprom, Russia's state-owned gas sector giant.

-----  
summary  
-----

12. (SBU) Far from reaching its ambitions of becoming "the most valuable company in the world," Gazprom's fortunes have reversed dramatically in the past year. The company's market value, production, and sales have all plummeted since the onset of the economic crisis. With dramatically reduced cash-flow, the company has been forced to cut back on capital expenditures and its ambitions, despite political rhetoric to the contrary. However, as we will examine in part two of this report, Gazprom's problems are likely longer term. End summary.

-----  
massive reversal in major indicators  
-----

13. (U) Major indicators of Gazprom's performance have all reversed course dramatically in the past year. (Note: Figures in this report are taken from Gazprom reports, statements, and presentations, unless otherwise indicated. End note.)

Market capitalization --

14. (U) At its peak in May 2008, Gazprom's market valuation, based on the small percentage of its shares that trade publicly, was over \$350 billion, and company president Alexey Miller declared Gazprom would become "the most valuable company in the world." Miller suggested Gazprom's market capitalization would reach \$1 trillion in the near future. By May 2009, in the midst of the global economic and financial crisis, the company's market capitalization had dropped to its recent low of approximately \$75 billion, but has since rebounded to approximately \$120 billion.

Production --

15. (U) Gazprom's gas production peaked in 2006, at 556 billion cubic meters (bcm). In 2008, it was 550 bcm. In the first seven months of 2009, however, Gazprom's production was down almost 25% over the same period in 2008. As of September 2009, Gazprom expects 2009 production to reach just 474 bcm, and many analysts believe that figure to be overly optimistic. In a September note on Gazprom, investment bank Troika Dialog predicted Gazprom would have difficulty even reaching 460 bcm. On the low end, some analysts estimate Gazprom could produce just 450 bcm or less in 2009 -- a 100 bcm or more decline from its peak production. Even this massive drop in production is masked to some degree by the halt in gas imports from Turkmenistan since April (ref A). In 2008, Gazprom imported 42 bcm from Turkmenistan, nearly all of which was re-exported to Ukraine. Having halted these imports, Gazprom itself is supplying the Ukrainian market out of Russian production.

Revenues --

16. (U) The Russian Customs Service reports that Russian gas export revenues were down 50% in the first 7 months of 2009, compared to the same period in 2008, a decline of almost \$20 billion. While Gazprom's official results for 2009 will not be published until well into 2010, a back-of-the-envelope

calculation using Gazprom's own projections for average price and volumes of exports to Europe in 2009 (ref C) indicates the company might receive about \$30 billion less from exports to Europe in 2009 than in 2008. This represents a loss of about 2% of Russian GDP and is in line with estimates from various analysts. (Note: Given the relative significance of export sales to Europe (excluding FSU), the relative reliability of the figures, and to avoid exchange rate complications, we focus only on export revenues here. According to its recent bond prospectus, Gazprom's exports are divided into sales to the FSU, and to Europe. Sales to the FSU and Europe represent 16% and 63%, respectively, of its sales by revenue -- meaning exports represent 79% of Gazprom's revenues. End note.)

#### Domestic sales --

¶17. (U) Gazprom's domestic sales are not down as dramatically as one would expect given the economic crisis, due primarily to artificially low domestic prices, which prop up demand. While Gazprom has not yet reported official results for the first half of 2009 (1H09), various analysts predict a drop of about 10% in gas volumes to the domestic market.

#### Export volumes --

¶18. (U) Gazprom's overall exports peaked in 2008 at 281 bcm. Gazprom's sales to the FSU peaked in 2007, at 101 bcm, dropping slightly to 97 bcm in 2008. Sales to the rest of Europe peaked in 2008, at 184 bcm. (Note: Interim statements regarding 2009 sales often do not coincide in definition with audited annual reports. Thus 1H09 sales estimates only give an indication of the trend and are not an exact comparison with 2008 figures. Gazprom has not yet released official results for 1H09 and only released first quarter (1Q09) results on August 26. End note.) Through 1H09, Gazprom has said it shipped about 33% less gas to European customers than in 1H08. In a recent statement, the company said its exports to the FSU in 1H09 dropped 54% compared to 1H08. A weighted average of those estimates indicates overall exports shrunk by about 40% 1H09.

¶19. (U) As Gazprom and many analysts point out, however, 2H09 should be much better for Gazprom exports as many European customers restrained purchases in 1H09, knowing that prices -- which are tied to oil prices with a six to nine month lag -- would drop dramatically in 3Q09. Furthermore, export volumes in 2H08 were already dropping rapidly due to the economic crisis and high gas prices that were reaching their peak in 4Q08. Results for 1H09 were also significantly affected by the 21 day gas cutoff to Ukraine and 10 day cutoff to Europe in January. That said, 2009 will still be a dismal year for Gazprom export volumes.

#### ----- forced cutbacks -----

¶10. (C) Facing financial realities, Gazprom recently cut its capital expenditure budget by \$7.5 billion, or about 25%, including cuts to Shtokman and Yamal development. However, Gazprom and GOR leadership continue to take the tack that "everything is fine" (ref B). One attendee at the recent gathering of the "Valdai" group of international Russia experts told us that Gazprom CEO Alexey Miller told the group that the company's plans for the Nord Stream and South Stream gas pipelines, and for the development of the Shtokman and Yamal gas fields are "all on track."

¶11. (C)xxxxxxxxxxxx told us recently that Miller's and other GOR leaders' public statements on Gazprom should be ignored. xxxxxxxxxxxx said these leaders understand well that Gazprom is in trouble but they just don't know what to do about it.

¶12. (C) According to xxxxxxxxxxxx, Gazprom simply doesn't have the money to move forward on all its so-called "priorities," and it will need to choose which are most important, while facing

insatiable political demands on its revenue streams. xxxxxxxxxxxx, told us recently that he believes Gazprom has "a heck of a lot of cost-cutting capacity" still available, but that the company has too many political constraints preventing it from taking the most necessary and painful measures. Furthermore, he figures the company needs to spend about \$5 to \$8 billion a year just to maintain its aging system and that these costs will rise in the future. xxxxxxxxxxxx is thus also very skeptical of Gazprom's other major commitments such as South Stream and Shtokman.

-----  
comment  
-----

113. (C) Gazprom's capital expenditure cuts reflect an understanding that, public rhetoric aside, the company can't spend money it doesn't have. However, Gazprom's longer-run problems are largely beyond its control and require fundamental reforms that will be difficult to achieve. In part two of this report, we examine the constraints to Gazprom's return to dominance.  
Beyrle